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# <Research Notes>The Experience and Challenges of Islamic Insurance in the Post-Soviet Space: Case Studies of Russia and Kazakhstan

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CITATION:

Renat, Bekkin. <Research Notes>The Experience and Challenges of Islamic Insurance in the Post-Soviet Space: Case Studies of Russia and Kazakhstan. イスラーム世界研究 2015, 8: 141-154

ISSUE DATE:

2015-03-16

URL:

<https://doi.org/10.14989/198354>

RIGHT:

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## **The Experience and Challenges of Islamic Insurance in the Post-Soviet Space: Case Studies of Russia and Kazakhstan**

**Renat Bekkin\***

**Abstract:** This article discusses how an Islamic insurance (*takaful*) model has been implemented in two CIS-countries (Russia, Kazakhstan) in recent years. The author examines legal regulation of *takaful* in countries where a special legislation on *takaful* was not adopted (Russia) or is in draft form (Kazakhstan). The author also notices inconsistent use of Islamic finance and *takaful* terminology by legislators in Kazakhstan. In the case of Russia the article tells about a number of attempts to set up *takaful* business in the absence of specific legal regulation for such type of insurance. Special attention is paid to the attempts to launch of *takaful* products (non-life insurance) by *Evro-Polis* company in the Republic of Tatarstan (Russian Federation) in 2012.

### **Introduction**

In recent times some articles and papers on the practice of Islamic financial institutions in Russia and Kazakhstan have been published. However, the authors of these publications were focused more on Islamic banking and the capital market [Maggs 2011; Yandiev and Bekkin 2011]. At the same time, there are just a few articles on problem of Islamic insurance published in Russia and Kazakhstan generally based on the monograph [Bekkin 2001; 2012].

Islamic insurance is one of the key Islamic financial institutions. The first Islamic insurance companies in the world have been established in Sudan and the UAE in 1979. In 2013 the number of companies providing *takaful* services worldwide rose to 200. According to the Ernst and Young Global Takaful Insights 2014 “with the continued buoyancy in the estimated US\$2 trillion global Islamic finance markets, the global *takaful* market is estimated to continue its double-digit growth momentum of about 14% in 2014.” [Ernst and Young 2014: 3]

One of the main principles of *takaful* read as follows: Islamic insurance companies are not the owners of the insurance fund but only a trustee of the so-called *takaful* fund. Insurance premiums received by the insurer, shall be transferred to the *takaful* fund, which in turn is a common property of all policyholders or participants in *takaful* terminology.

In many countries Islamic banks preceded Islamic insurance (*takaful*) companies. In former Soviet Union we can observe non-typical situation. *Takaful* projects here were initiated before first Islamic banking institutions started their operations in these countries.

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This article will describe the experience of two countries Russia and Kazakhstan in their attempts to develop various forms of *takaful*. These two countries have many things in common within the given context. The main difference here is that in the former there is still no special regulation for *takaful* operators and in the latter the process of adopting a special law on Islamic insurance is ongoing. There is also the third country in the post-Soviet space — Kyrgyzstan — where a special law on *takaful* was promulgated in 2009. In that year the Government Decree which regulates in detail the functioning of institutions and *takaful*-companies in the country was adopted. However, the article does not treat the Kyrgyzstan's case here, because it does not yet have any *takaful* companies.

### 1. Islamic Insurance in Russia

Back in 2002, the media reported that insurance company *NASCO* in Tatarstan offered its customers a service for the accumulation of funds for the *hajj* in accordance with the principles of *Shariah* [Kashapov 2002; *Insurance Case* 2005]. Subsequently, the company made a clarification: they were talking about the programme *Idel-Hajj* started in 2001. This programme has been presented a joint project of the Spiritual Board of Muslims of the Republic of Tatarstan (DUM RT), insurance company *NASCO* and *Tatfondbank* [Kashapov 2002].

However, in practice it turned out that there are no such endowment insurance services, consistent with the principles of *Shariah* neither in *NASCO*, nor in the *Idel-Hajj*. Thus the information circulated in the media was nothing but a marketing ploy. Situation did not change after the *Idel-Hajj* became an independent company, one of the leading Russian *hajj* operators. Nevertheless, until today one can find articles and even monographs that tout the “pioneer experience” of *NASCO* as a major success in developing Islamic insurance [Timiryasov 2011]. Such virtual projects periodically arise in our days. They are mentioned in the publications of unscrupulous authors who do not bother to double check the information they find on the web.<sup>1</sup> That is why some articles on *Takaful* in Russia look like fairy-tales as they describe what does not exist in real life.

Another Tatarstan company called *Itil* also did go very far in the development of *takaful*. Originally, it intended to develop a division within the company operating in accordance with Islamic principles of insurance. In the autumn of 2004, the company set up a dedicated department of Islamic insurance. However, in early 2005 the project was put on hold. The company decided to look for a co-investor from the Gulf countries. The company's

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1 For example, some S. P. Fukina writes about insurance company *takaful*, which until July 2012 allegedly provided in accordance with *Shariah* “services for insurance against accidents and illnesses, health insurance, insurance of land transport, corporate property insurance, except for vehicles and agricultural insurance, property insurance of citizens, except for vehicles and liability insurance of vehicle owners” [Fukina 2014].

management began negotiations on cooperation in the project with an Islamic insurance and reinsurance company *Dubai Islamic Insurance & Reinsurance Company (Aman)*, but both sides failed to reach an agreement. Shortly thereafter, the *takaful* project on the basis of *Itil* was aborted.

The real goal of *Itil* was to get an investment from the Gulf countries. At the same time, *Dubai Islamic Insurance & Reinsurance Company (Aman)* was expecting some real steps from its partner in Russia. So, the lack of mutual understanding between the partners (*Itil* and “*Aman*”) was the real cause of the failure of the *takaful* project. Meanwhile, the deputy general manager of *Itil* moved to another company. All the initiatives related to *takaful* project in the company came from her. Shortly after her moving the project was closed at the initial stage. The general manager and the owner of the company, Azat Hakim, demonstrated from the very beginning his skepticism to the same idea of *takaful*.

In the mid-2000s, representatives of various Russian insurance companies studied the possibility of introducing some Islamic insurance services into the domestic market. However, this interest did not go beyond a mere curiosity about an exotic insurance system. Companies assessed the project related risks (including political, associated with so-called “Islamic factor”) and preferred to wait and see.

The main question for those businessmen who were interested in Islamic insurance, was as follows: what is the most appropriate business form for performing *takaful*? Experts have agreed that the best way for implementing Islamic insurance in Russia is to establish a mutual insurance society. The mutual insurance concept can help combine the conventional insurance with *takaful* principles. For example, the premium paid by participants (insureds) in *takaful* interpreted as donation. This principle is questionable from commercial insurance’s point of view. At the same time, in mutual insurance this contradiction can be withdrawn.

However not everybody was satisfied with these arguments. The form of mutual insurance society for *takaful* business possessed in the eyes of businessmen some major disadvantages. They can all be summarized as follows: to start *takaful* business in the form of mutual insurance society is risky and unprofitable. The form of mutual insurance society has limitations in terms of capital and number of participants (no more than 2000 people). The opponents of mutual insurance argued that this form of insurance business is defeated in competition with insurance business in its commercial form. The idea of mutual insurance is still not very popular among conventional (non-Islamic) insurers. The special law on mutual insurance was promulgated in 2007. However, by 2012 only 7 mutual insurance societies had been licensed. So, it is hardly surprising that some big Russian insurers started to study if it is possible to realize the idea of *takaful* within the framework of commercial insurance companies.

One of these companies was *Renaissance Insurance*. The company’s interest in Islamic insurance was due to the fact that there were many pilgrims on their way to *hajj* and *umrah*

among its existing clients. Desire to attract the maximum number of pilgrims and create more comfortable conditions of insurance for existing customers were the main rationale for *Renaissance Insurance*'s decision to start a *takaful* project.

According to the results of coordination with the staff concerned departments of the company, primarily legal, *Shariah* Advisor of "Renaissance" got an expert analysis of the documentation for a variety of insurance products (compulsory third party car insurance and hull insurance, insurance of corporate and private property, cargo insurance, *etc.*). Necessary modifications and additions made it possible to proceed with the development of Islamic insurance products.

The documentation for a variety of insurance products (compulsory third party car insurance and hull insurance, insurance of corporate and private property, cargo insurance, *etc.*) was subject to an expert analysis carried out by the *Shariah* advisor that *Renaissance Insurance* engaged in the project. Necessary modifications and additions to the documentation made it possible to proceed with the development of Islamic insurance products.

However, the main question remained unresolved for a long time: how would the funds of policyholders paid in the form of installments for Islamic insurance products be invested? At that time in Russia there were no banks offering *Shariah* compliant bank accounts. An agreement was reached with one of the Russian banks to open a special purpose account for the funds of the project *takaful* where the funds are not to be mixed with money received from the sale of non-Islamic insurance policies. The bank was supposed to appoint a manager in order to administer this account.

The decision was not perfect in terms of Islamic law. However, in the absence of *Shariah*-compliant banking services in the country, the company had only two solutions in the arsenal: to try to ensure the terms for placement of funds in a conventional bank which are as much as possible permissible from the point of view of Islamic law or suspend the project. After consultation with the *Shariah* advisor, the company decided to proceed with the first option.

The form of organization of Islamic insurance business in the company has been another lynchpin of the project. The management of *Renaissance Insurance* declared that it is not ready (at least before the start of sales of Islamic insurance policies) to create an independent structure in the form of a separate company or Islamic insurance "window" within the insurer.

According to the business plan, the company was supposed to go to market with a line of Islamic insurance products in summer 2009, but the launch of the final phase of the project (start of Islamic insurance policy sales) was postponed several times. By late autumn 2009, it was announced that shareholders had decided to put the project on hold with a "non-priority" mark.

While *Renaissance Insurance* was working on the *takaful* project there were reports in the media in November 2009 about the intention of the Russian logistics investment group

*Safinat* to develop Islamic insurance in Russia [Grishina and Kiseleva 2009].<sup>2</sup> It was stated that in the early 2010 it would commence sales of Islamic insurance policies. The project consultant was a Kuwaiti insurer specialising in Islamic insurance, *First Takaful Insurance Company*. It was announced that two offices of the new Islamic insurance company would soon be opened in Moscow and Kazan.

However, despite strong statements, this project has never been implemented. The question remains unanswered: whether in fact experts of *Safinat* and *First Takaful Insurance Company* made real steps to design appropriate Islamic insurance products or it was nothing more than a declaration of intention – like the one that took place in the company *NASCO*.

One more Islamic insurance project developed by another major Russian insurance company *ROSNO* followed approximately the same scenario. Amendments were made to the *ROSNO* documentation for insurance products (third party liability insurance, motor insurance, insurance of corporate and private property, cargo insurance) to make them *Shariah*-complaint. As in the case of *Renaissance Insurance*, financial model in *ROSNO* was based on the *wakala* (agency) model. This model of Islamic insurance means that the participant (insured) pay his/her contributions to the *takaful* fund. At the same time, the company (insurer) acts as an agent, the *wakil*, for managing this fund. The company, which gets a pre-agreed *wakala* fee as a percentage of the contributions paid by the participants, is responsible for investment and underwriting activities of the *takaful* fund. *ROSNO* project was suspended at the same stage as that carried out by *Renaissance Insurance*.

According to our observations, the key factor here was a personal one. We noticed it reviewing the experience of *Itil* company. The same can be true with respect to other companies. The key figure in all issues related to *takaful* in *Renaissance Insurance* was the supervisor of the project (one of the vice-presidents of the company). She defended the project to the management and owners of the company. When she moved to the other company, *Renaissance Insurance* lost the principal advocate for the project. In fact the same situation could be observed in *ROSNO*, where the initiative for *takaful* project came from deputy general manager of the company. The project was closed shortly after his moving to another company.

Experience of participation in Islamic insurance projects at different Russian companies allowed the author of these lines to conclude that the most likely success scenario for Islamic insurance in Russia is its implementation within a small company. Despite large financial opportunities that major insurers can boast of, it is much easier for a small company to develop and carry through such a risky project as Islamic insurance. The stakes are high, but the payoff in case of success is high too.

Experience of *Evro-Polis* insurance company proved that these expectations were

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2 See also “Safinat” and “Alliance Capital” Signed an Agreement on the Establishment of Russia’s first Takaful Company.

correct. On 1 June 2012, the company started sales of Islamic insurance policies for people traveling abroad. The idea of Islamic insurance in Russia was finally put into practice.

*Evro-Polis* no longer faced the problem of allocation of insurance funds as acute as its predecessors did. By the time the work on the project commenced, three financial institutions have been offering Islamic banking services in Russia: *Vostok Capital* (Islamic banking “window” of *Ellipse Bank*), *Amal Finance House* and *Yumart Finance*. These financial institutions were present at that time in Kazan, Nizhny Novgorod, Ufa and Moscow. Not accidentally, *Evro-Polis* began to develop Islamic insurance in two of the mentioned cities (Kazan and Ufa): firstly, because the company also had offices there, secondly, because there were financial institutions offering the Islamic banking services that the company needed.

*Evro-Polis* opened special Islamic current accounts in Islamic “windows” of *Ellipse Bank* and *Bulgar Bank* in order to hold insurance premium received from clients (policyholders). In the absence of suitable *Shariah*-compliant instruments on the Russian market, the company had to keep the funds on current accounts without investing them.

For *takaful* operations in *Evro-Polis*, a combination of *wakala* (agency) and *waqf* model<sup>3</sup> was chosen. This model allows each policyholder to participate in charitable activities with part of the insurance premium and according to the *Shariah* advisor of the company, meets the essence of the Islamic concept of insurance, as well as the goals and objectives of the company — without breaching the Russian laws. In other words, the company used the methods of mutual insurance within the structure of commercial insurance company in the form of a joint-stock company.

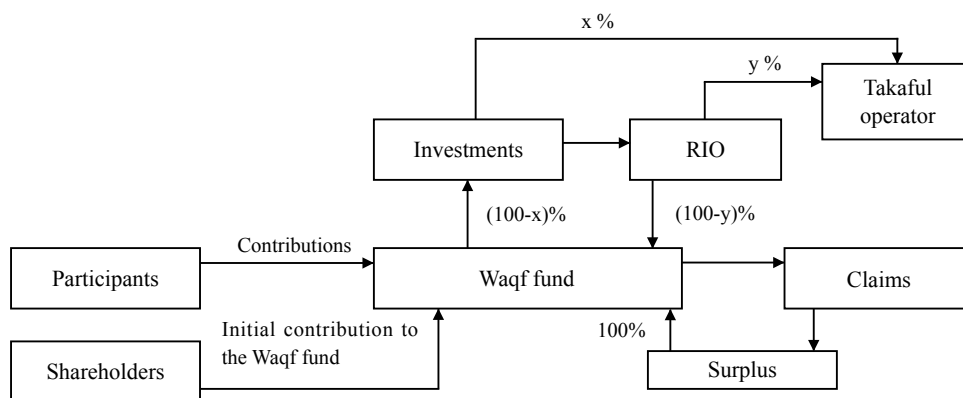


Fig. 1. Agency (*wakala*) model + *waqf* used in *Evro-Polis* company

<sup>3</sup> *Waqf* is a property alienated for charity. When certain property is made *waqf* (or, according to some Muslim theologians, when the intention to create *waqf* is announced), it no longer belongs to the founder of *waqf* (*waqif*), nor is it transferred into the ownership of those who manage *waqf* in the interests of the *waqf* beneficiaries (receivers of *waqf*-created profits) designated by the *waqif*. It is prohibited to use *waqf* property for purposes other than those designated by the *waqif*.

*Shariah* supervision in the company was implemented by a single *Shariah* advisor. The fact that there was no *Shariah* Advisory Board affiliated with the company and including at least three people (in accordance with the standards of the AAOIFI — the Accounting and Auditing Organisation for Islamic Financial Institutions) is not unique to *Evro-Polis*. This practice can be observed in other structures that offer Islamic financial services in Russia. This is due to, primarily, the lack of qualified personnel in Russia and the reluctance of market participants to attract foreign specialists because of their high fees. The institute of an individual *Shariah* advisor exists in Pakistan. More important is the fact that the company has attracted as a *Shariah* advisor a secular scholar specializing in the study of Islamic law and Islamic finance, while in other Russian Islamic financial institutions the function of *Shariah* control and supervision was monopolised by representatives of Muslim clergy.

However, the *Evro-Polis* Islamic insurance project had a number of drawbacks built into it. Some of them were caused by the inability to fully implement the concept of *takaful* under the Russian laws, the others by the internal difficulties of the company. Thus, the absence of a separate division in the form of an Islamic insurance “window” or a separate company significantly influenced the development of sales of Islamic insurance products at *Evro-Polis*. The idea of transforming the Kazan branch of *Evro-Polis* into a separate Islamic insurance company was discussed, but the question has not been resolved. The shareholders of the company were expecting some return from investments in the project in order to discuss the opportunities to establish a separate Islamic insurance company.

Pretty soon, however, the shareholders of the company lost interest in Islamic insurance, and in the beginning of summer 2013 the project was actually abandoned. Once again a key role for the fate of the project played a personal factor. There was a conflict between the CEO and director of the branch of the company in Kazan. As a result, the director of the Kazan branch was dismissed. Since he was the manager of the *takaful* project in “*Evro-Polis*,” with his departure the project was discontinued.

With regard to implementation of the *takaful* concept in the form of a mutual insurance society, this approach is the most correct in terms of *Shariah*, but it is not popular with Russian businessmen. Among the reasons for not wanting to develop Islamic insurance based on a mutual insurance company are existing legal restrictions for mutual insurance companies related to the amount of capital and the size of the customer base.

The author expects that in the next few years major insurers should come up with more initiatives to create Islamic insurance “windows.” *Takaful* has a better chance of success in Russia than Islamic banking,<sup>4</sup> taking into account the fact that the insurer has the ability

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4 As was noted elsewhere in this article, the main problem of Russian Islamic financial institutions is the lack of own capital. This forces them to resort to borrowing in the interbank market. Therefore, the cost of financing in an Islamic bank may at times by two times exceed the cost of a conventional bank loan. As a result, customers (including Muslims) do not show much interest in the services of Islamic banking and



to provide a flexible tariff policy. If we take *Evro-Polis* as an example, the price of Islamic insurance policies there was no different from conventional insurance policies of the same type. Moreover, the company provided a discount if the client proved that the insurance policy of competitors in the conventional insurance was cheaper.

## 2. Islamic Insurance in Kazakhstan

Kazakhstan along with Kyrgyzstan was one of the states that have declared intention to become a regional center for Islamic finance. The question of creating the legal framework necessary for the development of Islamic banks was resolved as soon as possible. In February 12, 2009, the President of the country Nursultan Nazarbayev signed the Law “On amendments and additions to some legislative acts of the Republic of Kazakhstan on the organization and activities of Islamic banks and Islamic finance organizations.” In accordance with the law the Civil Code, the Law “On Banks and Banking Activity,” the Tax Code, the Law “On Investment Funds,” *etc.* were amended. The uniqueness of the situation is that the Act was passed in the absence in Kazakhstan of Islamic banks and Islamic ‘windows’ in the conventional banks. However, even after the adoption of the new law the businessmen in Kazakhstan were not hurry to open Islamic banks and provide Islamic banking services.

In March 17, 2010 the bank *Al-Hilal*<sup>5</sup> (as a subsidiary of the same name bank from the UAE) has been granted a license to conduct banking operations as an Islamic bank — in accordance with the “Agreement between the Government of the Republic of Kazakhstan and the Government of the United Arab Emirates on the opening of the Islamic Bank in the Republic of Kazakhstan” dated June 11, 2009. However, in summer 2011, the National Bank of Kazakhstan has suspended the license of JSC *Islamic Bank Al-Hilal* for interest-free deposit taking for individuals. The reason for the suspension of the license was the partial failure of the bank to secure the minimum amount of equity capital.

In parallel with the development of Islamic banking services market certain steps for the application of Islamic financing techniques were observed in the insurance sector. In January 2010 in Almaty the first *takaful* operator in Kazakhstan started to work in the form of a mutual insurance company. In April 2010 the previously registered a mutual insurance society (MIS) Akniet was renamed as MIS *Takaful*<sup>6</sup>. By that time the initiators of the MIS *Takaful* prepared some Islamic insurance products, particularly health insurance for pilgrims traveling to the *Hajj* and *Umrah*. At first the initiators of the first *takaful* operator in Kazakhstan planned to create a specialized division of traditional insurance company performing insurance activities quasi-banking institutions.

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5 The full name: JSC *Islamic Bank Al-Hilal*.

6 The author repeatedly heard from businessmen in the Republic of Tatarstan (Russian Federation) about their intentions to register a mutual insurance society and then develop on the basis of it *takaful* project. However, further intentions did not get.

in accordance with *Shariah*. However this option was rejected. During the creation of MIS *Takaful* its founders had to significantly adjust their plans at the last moment and change its original concept of provision of insurance services in accordance with *Shariah*.

It was initially planned that MIS *Takaful* will reinsure its risks in a foreign *takaful* company with experience in the field of Islamic reinsurance (*re-takaful*). To this end, an agreement was reached with one of the leading *takaful* operators in the world — *Dubai Islamic Insurance & Reinsurance Company (Aman)*, which, as noted above, in 2004 negotiated a partnership in the development of *takaful* with the Russian company *Itil*. In this case, the MIS *Takaful* would act as an agent of the company *Aman*. This would allow MIS gain some experience in *takaful* and *re-takaful*. In particular, cooperation with one of the largest players in the market of Islamic insurance and reinsurance would help solve problems such as investing in permissible in terms of *Shariah* assets and holding *Shariah* expertise offered by MIS products.

However, plans of MIS *Takaful* were not to be realized. In January 2010 Kazakhstan adopted amendments to the existing “Insurance Activities” Act. In accordance with the new law mutual insurance companies are not only prohibited to act as reinsurers, but also to be reinsured. These amendments have been lobbied by commercial insurance companies, who did not want competition from mutual insurance societies. As a result, these amendment were not only limited the development of mutual insurance but also Islamic insurance as well. Such a failure, however, has not changed plans of MIS “fathers,” and the first project of *takaful* in Kazakhstan started to develop on its own account. Kazakhstan’s first *takaful* operator managed to offer to its participants only the types of insurance that were allowed by the new law and were not considered as unprofitable.

Currently MIS *Takaful* offers the following insurance products: 1) *voluntary medical insurance of tourists going abroad*. This product includes the following programs: *hajj* (*takaful* insurance of citizens traveling abroad for the purpose of pilgrimage to holy places (*hajj* and *umrah*); tourism (includes *takaful* insurance of tourists traveling abroad on a tourist trip or vacation); education (*takaful* insurance for students going abroad for study); work (*takaful* insurance of citizens traveling abroad on a business trip, traveling for employment); visa (*takaful* insurance of citizens traveling abroad with various other purposes); 2) voluntary accident insurance; 3) voluntary health insurance.

For management of contributions of policyholders MIS *Takaful* uses a rather rare practice among Islamic insurers, the so-called Agency model + *waqf*. Perhaps the choice of this model can be explained by the fact that one member of the Advisory Council on Islamic financing principles<sup>7</sup> of society is Maksatbek Kairgaliev who studied *Shariah* sciences in

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<sup>7</sup> In accordance with the applicable law, the *Shariah* Council at Islamic financial institutions in Kazakhstan is usually called by the Council on the principles of Islamic finance.

Pakistan, wherein the model is popular among Islamic insurers.

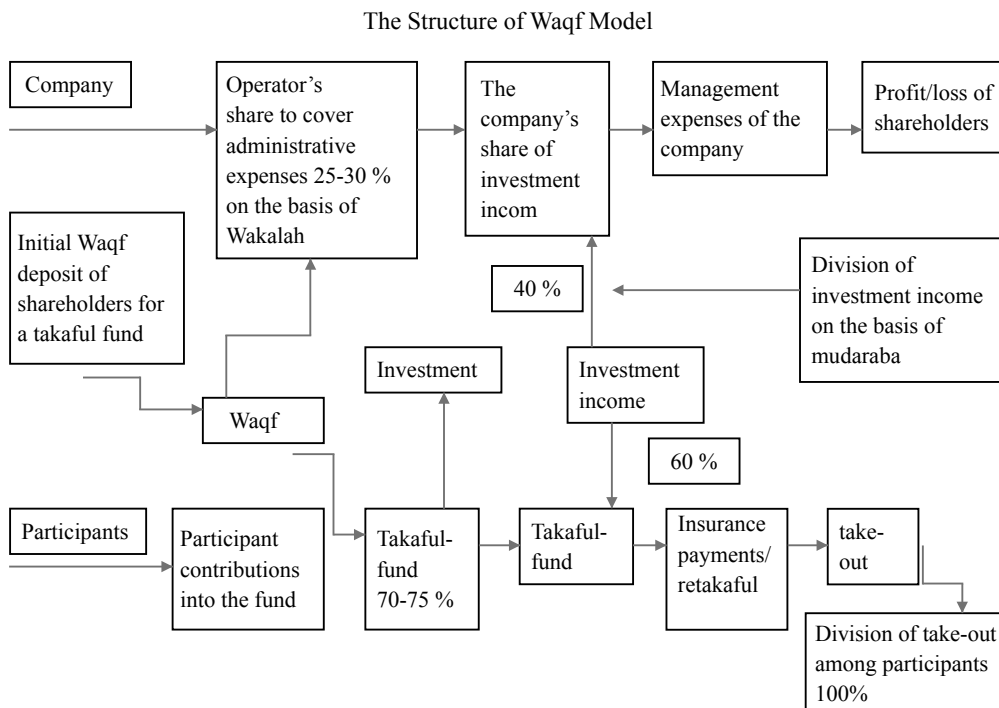


Fig. 2. Agency (*wakala*) model + *waqf* in MIS “*Takaful*” (Kazakhstan)

Source: Official website of MIS *Takaful*: [www.takaful.kz](http://www.takaful.kz)

In an effort to increase its capacity to implement the principles of Islamic insurance in Kazakhstan, MIS *Takaful* acted as one of the initiators of the adoption of amendments to the existing legislation, dedicated to insurance; the amendments to the Civil Code, the Law “On insurance activity,” the Law “On Licensing,” *etc.* As in the case with the changes made to the existing banking laws, the proposed amendments concern the use of certain terms related to Islamic finance. Thus, the *Shariah* Council is proposed to rename into the Council on the principles of Islamic finance. The use of the word *takaful* also is not assumed, while describing the Islamic insurance system it will be used the term «Islamic insurance» — in contrast to, for example, in neighboring Kyrgyzstan, where the term *takaful* entered the legislation.

In May 28, 2014 in the lower house of parliament — *Majlis* — the bill “On amendments and additions to some legislative acts of Kazakhstan on insurance and Islamic finance” was adopted in its first reading. In order to avoid the use of foreign words, the drafters did not use the term *takaful* as a synonym for Islamic insurance.<sup>8</sup> The word *takaful*

<sup>8</sup> The Legal Department of the National Bank of Kazakhstan has consistently opposed the use of foreign terms enacting laws, the definition of which is absent in the current legislation of the country.

occurs only when it comes to so-called *takaful* fund (chapter 6-1, article 36-2 of the “On making amendments and additions to some legislative acts of Kazakhstan on insurance and Islamic finance”), which receives contributions paid by policyholders. Usual names for insurance contractors in traditional insurance are also saved: the insured and the insurer. They are not named, as recommended by the theory and practice of *takaful* in most countries, as “participant” and “*takaful*-operator” respectively. Certainly, at issue is not in the terminology, but in the same principles of *takaful*. However, sometimes terminology is crucial. For instance, in the amendments to the article 23 of Insurance Activities Act of the Republic of Kazakhstan provided by “On making amendments and additions to some legislative acts of Kazakhstan on insurance and Islamic finance” there is such point: “Full name of Islamic insurance organization operating in ‘life insurance’, must necessarily contain the words ‘Islamic’ and ‘life insurance’ or derivative words” (Amendments to the Insurance activities act, article 23, point 3.1). As it is well-known the same idea of life insurance is strongly prohibited by *Shariah*. *Takaful* companies provide family *takaful* products designed as an alternative to conventional life insurance.

Initiators of amendments to the legislation expect that adoption of the law will accelerate the development of *takaful* market in the country. However, as discussed above the history of Islamic banking in Kazakhstan shows the expectations of supporters of *takaful* may be overstated. The existence of a favorable legal environment for the development of Islamic finance does not necessarily guarantee the development of the market of services.

## Conclusion

This article analyzes the experience and challenges of two republics with Muslim population in the former Soviet Union (Russia and Kazakhstan) in the development of Islamic insurance (*takaful*).

The first project on Islamic insurance was started in Russia in 2004. It was supposed to transform *Itil* company in the Republic of Tatarstan (Russia) into *takaful* using the investments from the UAE. However, the project was not implemented due to a mutual misunderstanding between the partners from Russia and the UAE. Soon after the key-figure of the project — deputy General Manager of *Itil* — moved to another company, the project was canceled. Later a similar fate befell the other projects — in *Renaissance insurance* and *ROSNO*. The personal factor here played a crucial role. Soon after the leaders and initiators of the projects in both companies left their positions in *Renaissance insurance* and *ROSNO*, respectively, the projects on Islamic insurance were terminated.

Despite the consensus among the expert community that the best way to implement the concept of Islamic insurance is to have recourse to the mutual insurance society (MIS) model, there has been no attempt to create a *takaful* company in the form of MIS in Russia. This

can be explained primarily by pure economic reasons. In view of the existing restrictions on the number of participants and the amount of capital those businessmen who are willing to engage in insurance business are not in a hurry to get a license for MIS. Commercial insurers in Russia have a significant competitive advantage compared to MIS. Mutual insurance societies need support from the state. This support can manifest itself in such measures as allowing mutual insurance societies to offer their services not only for voluntary insurance, but for compulsory insurance as well; giving MIS companies financial guarantees at the early stages of their work etc.

The problems of regulation of mutual insurance in Russia affected the prospects for Islamic insurance in the country. Had Russia developed a market for mutual insurance, the concept of Islamic insurance could have been implemented in the late 2000s. However, the underdevelopment of the market and the risks associated with the development of *takaful* on the basis of MIS have prevented the interested parties from having recourse to this organizational form. As a result, all the *takaful* projects in Russia were initiated by commercial insurance companies.

The first successful project on Islamic insurance was implemented on the basis of a small commercial insurance company *Evro-Polis*. In 2012 a line of *takaful* products was launched at the Russian insurance market. In this process the personal factor was of critical importance. After the departure of the company's project manager, the project was shut down. Thus, a brief history of Islamic insurance in Russia indicates that the management and the owners of companies that instituted *takaful* projects were not particularly interested in the development of Islamic insurance. For them it was a pilot project that was sustained by the enthusiasm of one or two managers in the company. Accordingly, their departure from their companies determined the fate of the project.

A different matter is the case of Kazakhstan. Notwithstanding the fact that existing legislation imposes restrictions for mutual insurance societies (in particular, the prohibition for MIS to provide reinsurance, liability insurance and compulsory insurance), the first project of Islamic insurance in the country was realized on the basis of MIS. With regard to commercial insurance companies, they did not dare to implement the project on *takaful* for the following reasons: 1) the management and the owners of companies did not have enough knowledge about Islamic insurance; 2) some *Shariah* experts did not compromise in some aspects related to Islamic insurance, e.g. they did not allow to create a *takaful* 'window' within the framework of conventional insurance companies; 3) the market for *takaful* products was poorly understood and there was no clear vision of the impact of this idea. It is possible that the preliminary research was made in some companies in Kazakhstan like the one in *Itil*, *ROSNO* and *Renaissance insurance*. However no information about such preliminary studies is available to this researcher.

The situation has changed radically since the adoption in the first and second readings of the draft law of the Republic of Kazakhstan “On making amendments and additions to some legislative acts of Kazakhstan on insurance and Islamic finance.” The authors of the bill have great hopes for this document. They think it will stimulate the emergence of new Islamic insurers and development of the *takaful* market in the country. However, as can be observed from the above mentioned history of Islamic banking in Kazakhstan, the changes in the legislation by the state are insufficient to make a business interested in Islamic finance.

In the next few years, one can hardly expect a surge of interest in *takaful* insurance market in either country the article have examined. Two or three of the insurers (not the largest), offering services of the Islamic insurance in the form of either *takaful*-based private company or an Islamic insurance ‘window’ appears to be the necessary minimum that will allow us to say that the efforts of the authors of bills on Islamic insurance in Kazakhstan, as well as of members of parliament who passed the necessary laws have not been a waste of time. As for Russia, any future Islamic insurers should first of all prepare a careful estimate of their viability in the market before starting discussion on any relevant amendments in the state legislation.

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